



Analyses & Opinions

By Marzenna Guz-Vetter

Will small and medium-size enterprises in western Poland withstand the pressure of competition on the common market?

- The Polish government should give more consideration to the western borderline region when earmarking budgetary resources and EU structural funds for infrastructure development and assistance to small and medium-size enterprises (SMEs). SMEs in that region should receive special support aimed at their modernisation and improvement of product quality, as well as development of exports.
- There is a need to define the sectors of the German market where western Polish provinces could be successful competitors. Also a study should be commissioned of how well local Polish businesses are prepared for operations under common market conditions. This is a challenge for regional policy at the national and regional levels of government. Current regional development strategies for the Zachodniopomorskie, Lubuskie and Dolnośląskie Provinces fail to even take note of the presence of the German market right across the border.
- Business associations and chambers of commerce in the Polish border region should act together in order to revitalize the region's economy and ensure better representation vis-à-vis German partners and competitors.
- Businesses located in the agglomeration of Szczecin are best placed to enter the German market. That city has a chance of taking over as the leading business and scientific centre in the border region once Poland joins the European Union.

The integration with the European Union gives the Polish region along the German border a chance to revitalize its economy and make itself over from an area at the periphery into a business hub of expanded Europe with blending management cultures, administration models and entrepreneurship types. Local businesses will find it much easier to operate without border and customs controls. The western Polish border region will have for the first time access to EU structural funds. They will make it possible to gradually close the huge

infrastructure gap that separates it from its German neighbour and will bring in investment programs that are key to regional economic stimulation.

A comparison between the economic potential of the western Polish provinces and the neighbouring east German *Länder* shows that there is a great regional diversification in the structure and pace of economic growth. Mecklenburg-Vorpommern – a region with a low economic potential – borders on Zachodniopomorskie Province, the most advanced area along the Polish border. Brandenburg – with its powerful centre in Berlin – borders on the poorly industrialised Lubuskie Province, an area with the highest unemployment level in Poland. Saxony is the most economically developed region of eastern Germany, whereas the neighbouring Dolnośląskie Province is poorly developed. The regional centre on the Polish side is located in the city of Wrocław - at a considerable distance from the border. Consequently, businesses located in the agglomeration of Szczecin have the best opportunity of expanding into the German market. After Poland joins the European Union, the city of Szczecin will have a chance of taking over as the leading business and scientific hub in the Polish/German border region.

Western border region: a challenge to Polish political and economic elites

The entrepreneurship spirit flourishing in western Poland and expressed in the highest number of private businesses per capita in the nation predestines its small and medium-size enterprises for an active role on EU markets. That region may become a promoter of advanced Western European technological trends. At the same time, once customs barriers disappear on the Oder/Neisse border, the region will be particularly vulnerable to the pressure of EU competition, particularly German (concentrated mainly in the agglomeration of Berlin).

The fact that western Poland borders on Germany - the economic giant of the European Union – should prompt Polish political and economic elites into making large-scale investments in regional infrastructure, particularly road and highway construction. Small and medium-size enterprises in that region should receive special support aimed at their modernization and improvement of product quality, as well as development of exports.

There is a need for a comprehensive study that would define those sectors of the German market where western Polish provinces could have a chance of being successful competitors

and for a study of how well local businesses are prepared for operations under the common-market conditions. Current regional development strategies for the Zachodniopomorskie, Lubuskie and Dolnośląskie Provinces do not define these sectors and, what is worse, fail to even take note of the presence of the German market right across the border. This is so because there is no tradition of thinking in terms of long-standing economic strategies, because difficult political decisions associated with a conscious support of particular economic sectors are being avoided and because the dominant trend in Poland is to think of the state as an entity rather than amalgamation of individual regions. Consequently, any exploration of the competitiveness of individual Polish provinces meets with strong political and psychological resistance.

EU expansion: an opportunity for small and medium-size enterprises in western Poland

Small and medium-size enterprises are the engine of economic development in western Poland. It is here, not in the eastern provinces, that the per-capita number of private businesses is the highest in the country. Most of these enterprises are located within the municipal agglomerations of Szczecin and Wrocław. The dynamic growth of the private sector in western Poland is to a large degree associated with the proximity of the Polish/German border and development of trade and commerce directed at German customers. Small private firms are the main employer in this part of the country. They employ approx. 70% of the entire work force, compared to the 62% national average. Economists agree that small and flexible firms ran by young entrepreneurs will be best placed to penetrate the German market after Poland joins the EU.

The Polish business community believes that Poland's accession to the EU will translate into a higher turnover in sectors such as the processing industry, transportation, international freight and automotive services. The direction of current negotiations on the free movement of people and services indicates that the German side can be expected to open its market to companies and workers offering highly specialized services in advanced technologies and at the same time restrict access to services involving an inflow of foreign workers. Special laws regulating the issue of selling services in Germany have been put in place pursuant to the negotiations on the free movement of people. They impose transition periods on services such as construction, industrial cleaning or interior finishing work.

The integration with the European Union also opens new opportunities to Polish providers of healthcare and geriatric care services in the region on the German side of the border. They stem out of the fact that the local German population is ageing and that there is a shortage of doctors due to the large-scale migration of local medical school graduates to western Germany, Scandinavia or Switzerland. On the other hand, the German medical community can be expected to muster a strong opposition to the influx of East European dentists.

Obstacles to Polish economic expansion into the German border region

Polish entrepreneurs who have decided to launch business operations on the German side of the border point to bureaucratic obstacles aimed mainly at the protection of the German market. German trade guilds and chambers of commerce constitute a strong lobby that is reluctant to share the local market with foreigners. The same goes for powerful trade unions in the construction and transportation sectors. Therefore, the opportunity for Polish enterprises along the border resides in establishing cooperation with German partners and in exporting, rather than venturing onto the German market on their own. The more so since running a business in Germany is extremely expensive.

A significant obstacle to the growth of the Polish presence on the German market rests in the scepticism of the German population living along the border with respect to the merits of the EU expansion and a personal bias that east German businessmen have toward their potential Polish partners. This results not only from the still strong historical grudge held against Poland but also from the misconceived notion of local patriotism characteristic to east German *Länder*. Such attitude leads to shutting oneself off from outsiders even when that is not economically justified.

Low competitiveness of Polish small and medium-size enterprises

Individual case studies of the competitiveness of businesses along the border with Germany warrant the concerns that they are not prepared for competing on the EU market. Indeed, most firms in western Poland are micro-companies employing up to 10 people and in many cases less than five. The majority is not involved in production but in trade, repairs or services provided to homes and businesses. Therefore, they do not contribute to the regional export potential. In addition, micro-companies are as a rule ill-disposed toward investment

owing to the absence of or insufficient capital, inadequate marketing efforts and lack of R&D resources

Although the local business community recognizes the threat associated with the mounting pressure exerted by foreign competitors, it nevertheless is not taking any appropriate remedial measures. Studies conducted by Szczecin University point at a disturbingly low share of investment in export production and environmental protection. In contrast to German companies, Polish medium-size enterprises very rarely assess the efficiency and effectiveness of their distribution and promotion, or research the marketing attractiveness of product features, name or packaging.

Most owners of small and medium-size enterprises in western Poland – and in the rest of the country – have a passive approach to the issue of integration with the EU and instead concentrate on day-to-day problems. This attitude is also typical of many local politicians who believe that "things will somehow work themselves out".

The threat to western Poland associated with the pressure of competition resulting from the forthcoming integration with the EU ought not to be underestimated. Studies conducted by the Polish Agency for Enterprise Development indicate that only 17% of corporate respondents from across the country meet EU product safety standards and only 7% anticipate the introduction of these standards into their operations. Since the adaptation to EU standards is least advanced among micro-companies, it can be assumed that most small and medium-size enterprises in western Poland are not ready to operate on the EU market, particularly in Germany. If appropriate remedial measures are not taken shortly, many companies in western Poland may end up not being able to cope with the competition, whereas those who will stay in business will have to satisfy themselves with their role as sub-contractors to EU companies. Indeed, drumming up the cheap labour force as the main competitive edge of Polish small and medium-size companies is a short-sighted policy. Once Poland becomes an EU member, the difference in the cost of labour will gradually even out and, moreover, there will always be countries where labour will be even cheaper.

In addition to the already mentioned need to give more consideration to western Poland when earmarking budgetary resources and EU structural funds for infrastructure development and assistance to small and medium-size enterprises, a key importance to the economic revitalization of the border region rests in the coming together of local business associations

and chambers of commerce. Since businesses in Poland are not required to belong to this type of organizations (there is no corporate self-government legislation) and since there is no business representation in Poland similar to the German Chamber of Industry and Commerce (IHK), business consulting in the Polish/German border area suffers from the lack of coordination. The German side has no equivalent partner across the border with whom it can take up long-term collaboration. It is in the interest of local Polish businesses to consolidate such activities and select a leading regional-level partner for the German side. This will also make it possible to lobby harder in favour of specifying the opportunities and threats that small and medium-size enterprises in western Poland face in connection with European integration. The current dialogue between Germany and Poland on the impact of European integration focuses on opportunities and threats as seen by the German business community, while problems specific to Polish businesses remain largely undefined.

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